



General Services Administration  
Office of General Counsel  
Washington, DC 20405

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December 14, 1994

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

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DEC 14 1994

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Subject: Simplification of the Depreciation Prescription Process  
Docket No. 92-296

Dear Mr. Caton:

Enclosed please find the original and nine copies of the General Services Administration's Reply Comments for filing on the above-referenced proceeding. Copies of this filing have been served on all interested parties.

Sincerely,

Tenley A. Carp  
Assistant General Counsel  
Personal Property Division

Enclosures

cc: International Transcription Service  
Accounting and Audits Division

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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

In the Matter of )

Simplification of the Depreciation )  
Prescription Process )

Docket No. 92-296

REPLY COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

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GENERAL SERVICES ADMINISTRATION  
18th & F Streets, N.W., Room 4002  
Washington, D.C. 20405

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REPLY COMMENTS OF THE GENERAL SERVICES ADMINISTRATION

The General Services Administration ("GSA"), on behalf of the Federal Executive Agencies, hereby submits its Reply Comments in response to the Commission's Further Order Inviting Comments ("FOIC"), FCC No. 94-256, released October 11, 1994. This FOIC requested comments and replies on the Commission's proposals relating to projection life and future net salvage ranges.

I. INTRODUCTION

On September 23, 1993, the Commission adopted its Depreciation Simplification Order in this proceeding.<sup>1</sup> This order concluded that the Commission's objectives would best be served by the

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<sup>1</sup>Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, FCC 93-452, Report and Order, released October 20, 1993 ("Depreciation Simplification Order").

establishment of projection life and future net salvage ranges for price cap local exchange carriers ("LECs").

On November 8, 1993, the Commission adopted an Order Inviting Comments ("OIC") that proposed ranges for 22 of the 34 depreciation accounts.<sup>2</sup> In Reply Comments filed on January 21, 1994, GSA supported the Commission's proposals. The Commission adopted ranges for all 22 accounts on June 22, 1994.<sup>3</sup>

In this proceeding, the Commission proposes varying treatment for the remaining 12 depreciation accounts. The Commission proposes projection life and future net salvage ranges for eight accounts; dying account treatment for three accounts; and no change in treatment for Account 2121, Buildings.<sup>4</sup>

On November 14, 1994, Comments were filed by:

- the United States Telephone Association ("USTA") and six individual LECs;
- MCI Telecommunications Corporation ("MCI"); and
- the Missouri Public Service Commission ("MoPSC").

In its Reply Comments, GSA responds to the comments and proposals made by these parties.

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<sup>2</sup>Id., FCC 93-492, OIC, released November 12, 1993.

<sup>3</sup>Id., FCC 94-174, Second Report and Order, released June 28, 1994.

<sup>4</sup>FOIC, pp. 3-5.

## II. The Commission's Range Proposals Are Realistic.

All commenting LECs criticize the Commission's proposed ranges as being unrealistic.<sup>5</sup> The LECs contend that the projection life ranges are too long because they are based upon historical data and are not forward looking.<sup>6</sup> BellSouth urges the Commission "to adopt a process that would rely principally on the judgment of carrier management as to the future lives of their depreciable assets."<sup>7</sup>

GSA disagrees. It is true that the Commission's proposed ranges are derived from currently prescribed parameters, and are in that sense "historically based." It is also true, however, that for over a decade the Commission has been prescribing parameters based upon forward looking projections of LEC retirements. For example, the following table<sup>8</sup> compares the currently prescribed lives for U S West in the state of Washington to the average of the five most recent empirical life indications for several of the accounts under consideration:

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<sup>5</sup>See, e.g., Comments of USTA, p. 3; U S West Communications, Inc. ("U S West"), p. 2; the United and Central Telephone Companies (the "Sprint LECs"), p. 2.

<sup>6</sup>See, e.g., Comments of Bell Atlantic, pp. 2-3; Pacific Bell and Nevada Bell ("Pacific"), pp. 3-4; Southwestern Bell Telephone Company ("Southwestern"), pp. 3-6.

<sup>7</sup>Comments of BellSouth Telecommunications, Inc. ("BellSouth"), p. 2.

<sup>8</sup>From the record in Washington Utilities and Transportation Commission, U S West - Accounting Changes, Docket No. UT-940641, Direct Testimony of Charles W. King, filed October 14, 1994, pp. 20-21.

<u>Account</u>	<u>Life Indication</u>	<u>Currently Prescribed</u>
Digital Switching	25	18
Digital Circuit	21	13
Aerial Cable - Metallic	31	24
Buried Cable - Metallic	40	28

The currently prescribed lives for these accounts are from 22 to 38 percent shorter than current life indications.

Because the Commission has been accepting LEC contentions that their retirement rates will increase in the future, there is little relationship between prescribed parameters and historically derived mortality rates. The Commission's proposed ranges are realistic because they are based upon forward looking existing prescriptions.

Some LECs also argue that they should be prescribed depreciation rates as high as those prescribed for AT&T.<sup>9</sup> Such arguments should be rejected out of hand. AT&T is an interexchange carrier, not a LEC, and its depreciation rates are not relevant to those of the LECs. GSA notes, moreover, that AT&T's average retirement rate of 12 percent has been more than double the 5 percent rate of the LECs over the last five years.<sup>10</sup> One would expect, therefore, that AT&T's depreciation rates would far exceed those of the LECs.

The reasonableness of prescribed LEC depreciation rates can also be tested by examining the trend of their depreciation reserves. As shown on Attachment 1 to these Reply Comments, LEC

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<sup>9</sup>See, e.g., Comments of USTA, p.4; Bell Atlantic, p. 3; the Sprint LECs, p.2.

<sup>10</sup>FCC Statistics of Common Carriers, 1989-93, Tables 2.7.

depreciation reserves have climbed steadily from under 25 percent at the end of 1984 to over 40 percent at the end of 1993. This record belies LEC criticisms of the Commission's prescription process.

### III. The Commission's Range Proposals Should Be Adopted.

Despite their criticisms, most LECs urge prompt adoption of the Commission's depreciation simplification proposals.<sup>11</sup> USTA states:

USTA accepts the Commission's proposals for the present and urges the Commission to adopt them immediately to achieve near-term administrative savings.<sup>12</sup>

MoPSC opposes the Commission's proposals because they may result in increases in depreciation expense without significant administrative savings.<sup>13</sup> MoPSC states:

Where tens of millions of dollars annually are at issue, the MoPSC does not regard the filing of 200 pages every three years as an undue burden.<sup>14</sup>

MCI, however, states:

In summary, the ranges that the Commission has proposed are

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<sup>11</sup>See, e.g., Comments of Bell Atlantic, pp. 3-4; Pacific, pp. 1-2; SWBT, pp. 2-3.

<sup>12</sup>Comments of USTA, p. 1.

<sup>13</sup>Comments of MoPSC, pp. 1-4.

<sup>14</sup>Id., p. 3 (footnote deleted).

reasonable and should be adopted because both the ranges and the current depreciation methodology appropriately reward carrier modernization efforts. Further, the Commission should be commended for continuing implementation of a plan that provides a reasonable level of increased flexibility and simplicity.<sup>15</sup>

Since the Commission's proposals are based upon current prescriptions, GSA agrees with MCI that they are reasonable and should be adopted. While the administrative savings resulting from the Commission's proposals may be modest, they are real, and they do not lessen the Commission's exercise of an appropriate degree of control over LEC depreciation rates. The Missouri Commission is free, of course, to adopt different depreciation rates for intrastate purposes.<sup>16</sup>

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<sup>15</sup>Comments of MCI, p. 4.

<sup>16</sup>Louisiana Public Service Commission v. FCC, 476 U.S. 355, 106 S.Ct. 1890, 90 L.Ed.2d 369 (1986).




## VI. CONCLUSION

As the agency vested with the responsibility for acquiring telecommunications services on a competitive basis for use of the Federal Executive Agencies, GSA supports the Commission's efforts to simplify its depreciation prescription process. In furtherance of this goal, GSA urges the Commission to adopt the projection life and future net salvage ranges it has proposed.

Respectfully submitted,

EMILY C. HEWITT  
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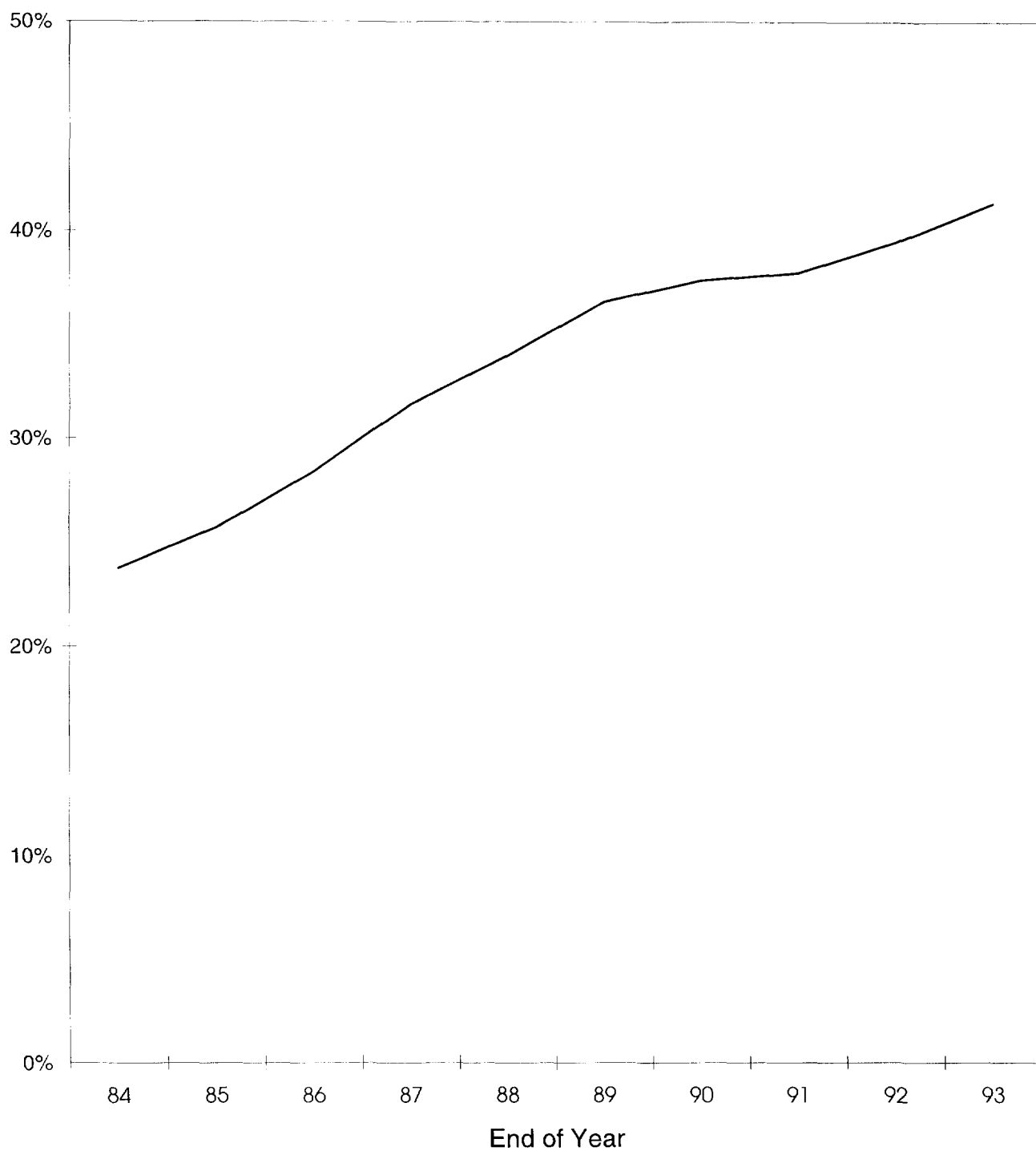
  
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18th & F Streets, N.W., Room 4002  
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December 14, 1994

Depreciation Reserve as a Percent of Total Plant In Service  
All Local Exchange Carriers  
1984 - 1993



CERTIFICATE OF SERVICE

I, Micki Miles, do hereby certify that copies of the foregoing "Reply Comments of the General Services Administration" were served this 14<sup>th</sup> day of December, 1994, by hand delivery or postage paid to the following parties:

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A handwritten signature in cursive script that reads "Micki Miles". The signature is written in black ink and is positioned above a horizontal line.